

COMMISSIONER LEWIS: Thank you very much. The pattern will now be that the various Commissioners will address questions to each of the three of you or to all of the three of you, and you can also respond to comments that the others have made. If you care to comment on what the other panelists have said, you're free to do that when you're asked a question.

CHAIRMAN WEIDENBAUM: And brevity is greatly appreciated.

MR. WESSNER: In the questions or the answers?

CHAIRMAN WEIDENBAUM: Both.

COMMISSIONER LEWIS: The first question will be from Commissioner Rumsfeld.

COMMISSIONER RUMSFELD: I have two questions. First, as I listened to the presentations, the phrase "Is the glass half-full or half-empty?" came to mind. Mr. Herrnstadt said that jobs are being threatened by offsets, that we're sacrificing more jobs. Mr. Wessner said that no one likes offsets. Offsets cost jobs. You also then balanced it by saying that we may actually gain more than we lose. I personally have been in situations where I liked offsets.

When I was ambassador to NATO the F-16 came up. The issue was NATO was going to have to buy a new

fighter aircraft. It was important that the NATO countries buy one aircraft, and not several; it was important that it buy an aircraft from a NATO country so we could assure resupply. The only way we got the F-16 contract was because of offsets. The U.S. would not have had those jobs. It might have been the Mirage; it might have been something else. So offsets were not a bad thing, in that situation. Now would you prefer to get it all? Sure. But that isn't in the cards, in many instances. So it seems to me that the words we wrap around the subject of offsets require balance, because there is no question but that your union would have lost jobs had we lost the F-16 deal, which at that time was the biggest military sale in the history of the world when five or six countries agreed to buy that airplane.

You indicated that you thought there were things we could learn from other countries. Could you be more explicit and give us some examples?

COMMISSIONER LEWIS: And this is to whom?

MR. HERRNSTADT: If I could just respond?

COMMISSIONER RUMSFELD: Sure. We'll stick with the first one. Fine.

MR. HERRNSTADT: Okay. So, yes, I think you've raised, obviously, an excellent and a very poignant point regarding offsets. Others have referred

to the offset issue as putting workers in a, "prisoner's dilemma," where you are forced to decide to sacrifice several thousand jobs in return for a sale which may only retain some of your jobs. That's what we object to. Our workers in the aerospace industry are the best in the world. And a great nation such as the United States should not force its workers into deciding something that puts them in a prisoner's dilemma. We're nobody's prisoners.

The issue of offsets is one that -- and this is where this Commission is so very important, among other things that you're working on -- is that the United States must, once and for all, come up with an overall, comprehensive policy on offsets. None really exists on this issue. Right now it is by and large relegated to private parties, and private parties don't have the capability to determine an overall policy on offsets. Other countries have overall policies on offsets. We don't. We need to look at licensing procurement issues, at subcontracting issues, at subsidy issues, at technology transfer issues, at production transfer issues. The list goes on and on, and I believe they are comprehensively listed in my written testimony.

This is one of the things the Machinists union has strongly urged our government to do once and

for all, to look at this offset issue, to look at the numbers that are involved. We don't know the exact numbers of all the subcontractors that have lost business due to offsets. The Bureau of Export Administration, under the Department of Commerce, has done some excellent work on this, as well as others have. I'm sorry?

COMMISSIONER RUMSFELD: You just cast it the same way again. You said we're forced into a situation where we have to sacrifice several thousand jobs in exchange for keeping some. Reverse that. You're frequently in situations where you have an opportunity to get some jobs by not demanding that you get all the jobs and by so doing lose them all. That's a very different thing. That's a plus, not a minus.

MR. HERRNSTADT: Well, with all due respect, Commissioner, it's a minus if your goal is to increase your job base of good aerospace and related jobs in this country. It's a loss if by doing that you are creating competition abroad. In the excellent work that Dr. Wessner has put together under the auspices of the National Research Council, it is a loss in the future if conceivably those industries themselves grow and decimate your own industries, and in --

COMMISSIONER RUMSFELD: I understand that.

MR. HERRNSTADT: Yes.

COMMISSIONER LEWIS: Your point -- Don,
your point was that you --

COMMISSIONER RUMSFELD: My point is that
you cannot simply say that we are losing jobs by virtue
of offset if, in fact, the reality is, as in the case
of the F-16, we would have gotten none of the jobs or
very few, if we had not agreed to providing some
offsets.

COMMISSIONER LEWIS: We got new business.
Right?

COMMISSIONER RUMSFELD: We got new business
that didn't exist. There are also instances that fit
what Mr. Herrnstadt says where you, in fact, lose jobs.
And there is also, as he says, the reality that down
the road you can end up transferring technology and
lose even more. I don't disagree with anything you've
said.

COMMISSIONER LEWIS: In creating a
competitor?

COMMISSIONER RUMSFELD: Yes. But I do
think there is the other element.

COMMISSIONER LEWIS: Mr. Wessner.

MR. WESSNER: Well, I think you've gone to
the heart of two points here. One is that the offsets
have a mixed effect. I mean, I think it's very
important to understand that. But one of the hardest

questions that we've wrestled with collectively when we've discussed these issues is where is the crossover point? I mean, were they going to buy no F-16s?

Will no one buy a Boeing aircraft without that level of offsets? Where is the pushback on the public policy side here? Where is the enforcement to try to limit the -- that is, why leave Boeing out there alone against the government? I think that's very important. I also think it's misguided to say that we should. That may be too strong. I think we have to be careful.

If we focus just on offsets, that may, in fact, advantage Boeing's competitors because their labor markets tend to be less flexible than ours. Eliminating offsets may in fact end up stripping our suppliers of one of the tools they need to compete. Boeing's competitors receive larger, more sustained subsidies. Plus there are gray areas, such as landing rights -- you know, if you buy an Airbus, it may be easier to acquire landing rights in some countries than otherwise. In short, there are a vast array of "gray" export promotion tools.

But the broader issue is to try and get out of this beggar-thy-neighbor subsidized competition and to try to get some enforceable multilateral agreement.

So the pushback, I think, is important to help our companies.

A second point that is important that came from our work is that as my formal statement says -- "Changing production techniques and the emergence of previously distinct technologies means that the impact of offsets in the past may well be a poor guide to the impact of offsets in the future."

The White House, particularly the National Economic Council, was concerned about the impact on the second-tier supply base in this country. What happens when they are obliged to teach competitors how to do things and transfer those technologies? These concerns were raised by members of the MITI Aircraft Initiative.

There appears to be an impact from offsets that is not a positive impact. We need to keep these long-term impacts in mind, particularly as we go forward, and particularly as the pressures I mentioned seem to be getting worse.

There's also a more positive side to this. An important thing that came out of the Academy deliberations was the sense that the United States representatives of labor, industry, and the government need to forge a consensus on what is needed in terms of R&D funding and test facilities, export incentives, worker training and efforts to restraint foreign

subsidies. We need a comprehensive approach to the aircraft industry. Other countries have one. Laura Tyson wrote in 1992 that if we didn't do this we might lose one of our companies. She now seems prescient.

Some of the reasons for creating a Commission is it would help our companies and our workers make the products the rest of the world needs; and b) it would be a clear indication to others that, we are prepared to defend this industry and match the commitments of our competitors.

COMMISSIONER LEWIS: Where does the lead need to come from to form that kind of consortium?

MR. WESSNER: Well, the first step would be your Commission, sir, and the second step, I think, would be with the next Administration. It might well want to take a look at the health of the American aerospace sector.

COMMISSIONER RUMSFELD: And that's one of the things you were recommending when you said we could learn from others?

MR. WESSNER: Yes.

COMMISSIONER LEWIS: Thank you very much. I know Mr. Waldmann has a response he wants to make. And after your response we're going to have Dick D'Amato, Michael Wessel, and then our Chairman, Mr. Weidenbaum. Go ahead.

MR. WALDMANN: Thank you, Mr. Chairman. I just want to point out a couple of things here. First of all, Boeing doesn't think that offsets are a major problem. That's why we did not address this in our statement. If we thought it was a major problem, we would have put it out on the table for you. And why do we take that position? Well, first of all, it's important to recognize that we are still predominantly a U.S. company with U.S. -- a U.S. supplier base. About 84 to 86 percent of our commercial jets are made in the United States.

Second, as Mr. Rumsfeld has pointed out, in the military arena, you do have to do offsets from time to time in order to win some business. Obviously, we would not be providing that offset if we thought it was going to result in a loss for the Boeing Company. So our calculation is that we are gaining more jobs, more work for the company, than we are losing through that offset commitment.

Third, we should distinguish the commercial market from the military market. In the commercial arena, since the 1979 Tokyo agreement on civil aircraft, the major countries of the world have essentially outlawed offsets in commercial transactions. Some of the countries that are outside of that agreement, like China, may still be in the mode

of looking for an offset to balance some of their purchases; but most of the major countries do not require offsets.

And so the nature of the problem for us is not nearly as severe as the impression I think either Mr. Herrnstadt or Mr. Wessner might leave you with. And there's just one thing I'd like to point out. I think when Mr. Herrnstadt was citing some statistics he was looking at a study that had looked at data up through 1995. I'm not sure exactly what the numbers are again. But obviously, since 1995 we have seen a substantial run-up in Boeing's employment as a result of Boeing's demand to produce, this year, 620 aircraft.

Last year I think it was in the 500s. And those market swings are much more important in determining the level of employment in this industry than any offset commitments.

Right now we are entering a downward phase of the market. We are laying off workers. Our employment is now down from its peak of 240,000 down to 200,000. We expect next year to deliver somewhere on the order of 480 aircraft, as opposed to 620 this year.

So the market swings, as a result of market demand, are much more important. And that's why we emphasize things in our statement which look at the potential for developing markets overseas.

COMMISSIONER LEWIS: Thank you very much.
You're next. Go ahead, Dick.

COMMISSIONER D'AMATO: Thank you, Mr.
Chairman. I'd also like to thank the witnesses for
their testimony. I think this is a very important
hearing, Mr. Chairman. The kind of issues that we're
discussing here are the kind of red meat and potatoes
that this Commission was really formed to take a look
at. And this agreement last night, of course, focuses
us on a lot of these issues in implementation and in
the question of linking other policies to trade.

I want to focus on two things, Mr.
Chairman. First, to follow up on the question of
offsets for Mr. Waldmann, I was involved about 11 years
ago in the FSX debate, as you may recall. In fact, I
was deeply involved in it. And as I recall, the
transfer of FSX technology to the Japanese at that time
was not really a national security issue from the point
of view of giving them the capability of a fighter, but
the question was whether or not we were going to be
transferring hot engine technologies of various kinds
to the Japanese. We knew exactly what the Japanese
wanted. The Japanese wanted to gain this technological
capability to establish an aerospace capability, a
capability to build aircraft that would, of course, be
in the commercial market and compete with us. That was

the nature of the debate. And the conclusion was to limit the technology we transferred to the Japanese in order to protect our domestic industry.

My question is for the Boeing Company. In getting into the China market, what do you think is going to happen in terms of transferring technology in the way of building aircraft in China? Are the Chinese going to be asking for the capability to build aircraft and eventually become a competitor to us in international aviation, just as the Japanese wanted to do? And I don't know the answer to that, and maybe nobody does. But that's, I think, something we need to worry about. So what can you tell us about that?

MR. WALDMANN: Thank you, Mr. D'Amato. Our relations with the Chinese aerospace industry, the aircraft industry in China, go back over more than 20 years. At certain points in that history, the Chinese aircraft industry and the ministries involved in aircraft production have attempted to put together arrangements or deals for the complete production of aircrafts in China, in partnership with a western company. The latest example of that was something called a trunk liner program, which was a joint venture, if you will, between Shanghai aircraft industry and the McDonnell-Douglas Corporation.

The Boeing Company choose a different route, which was to provide contracts to specific enterprises in China to make parts for Boeing aircraft and to have those parts shipped to the United States for inclusion or assembly into U.S.-assembled aircraft.

We still think that is the right way to go. We do not think that it makes sense to set up dual assembly lines for products. We don't think that the Chinese industry broadly is ready for the level of technically sophisticated production that commercial aircraft manufacture demands. Obviously, we work very closely with the factories in China to make sure that the parts we do buy from it are meeting our standards and FAA standards. Of course, that's a given.

So we have very carefully over the years formed partnerships with companies in China to produce given parts for U.S.-produced aircraft. And obviously we think that we have a significant trade surplus with China, or we wouldn't be doing this. We sell many more times the aircraft to China than we purchase in parts in China.

COMMISSIONER LEWIS: Does that satisfy you?

COMMISSIONER D'AMATO: Yes, I think so. I think you're saying you're not intending to transfer sensitive technologies for Chinese production at this

point, that they're not pressuring you to do so at this point?

MR. WALDMANN: That is correct. And of course, in commercial aircraft, the most sensitive parts of the aircraft are wing design, avionics, communications equipment. Those are all U.S.-based production.

COMMISSIONER D'AMATO: Thank you very much.

COMMISSIONER WESSEL: Thank you. Dr. Wessner, I'd like to ask you, I guess, two questions. Number one, several years ago I was in Indonesia and traveled to -- I believe it was IPTN, which was the Indonesian aircraft manufacturing concern at that point. I believe it was receiving, with Mr. Habibie, or the president in charge, was receiving roughly \$2 billion of governmental support to create a new aircraft manufacturing concern. And when visiting the facility, I traveled with an official of AID who was proud of the fact that he had arranged for a number of U.S. engineers to travel to IPTN under, I believe, some AID contract to assist IPTN in terms of becoming an aircraft manufacturer.

So the first question is what, in fact, are we doing to help create these infant industries, whether it's in aerospace, autos, or any other industries around the world and what should we be doing

about that? We saw in China, as you know, in the recent past that General Motors transferred, I believe, up to \$1 billion of technology to create a facility there and also teach the Chinese how to ultimately be self-sufficient in auto production.

The second question relates to an issue I know you've had experience with in the past, which is industrial or infant industry planning, Japan being one of the great advocates of that effort, as you know. MITI, their Ministry of International Trade and Industry, publishes, periodically, a report on their vision for the future, which enables governmental support to flow to those industries it's targeted, as well at the private sector, to understand that there is support for certain technologies from the government. We've seen that in semiconductors and x-ray lithography and optics and countless other industries. So, I'd like your thoughts. And of course, anyone who wants to respond as well on those two issues.

MR. WESSNER: Thank you. I think there are two points in that. First, in a global economy it's important to understand that these technology transfers that you're describing are going to occur, and that it would be quite foolish on our part not to recognize that reality and encourage it when appropriate. I'd much rather have American engineers selling American

services and American techniques and products, ideally, from American facilities.

On the other hand, when we talk about the global economy, it's important to understand that the competition is global, but the results are local. What we're engaged in is a locational competition around the world for the location of high tech industries. Winners don't necessarily take all, but they often take more because of the clustering effect of these technologies.

There's an interesting anecdote that might just demonstrate a point on how these things occur. While serving in the Technology Administration, Mr. Habibie, now President of Indonesia, came to the Department of Commerce and talked about the difficulty his factories were having in providing parts to the Japanese. He said they just couldn't seem to make the parts up to the right standard. They tried five, six times, and they just kept being rejected. Finally, Mr. Habibie told the Secretary of Commerce, "What I did is I sent my people out and they bought a Toyota fender, took the Toyota markings off it and shipped it in with our markings on it. It was rejected."

Now, I think that captures some of the competition that goes on. But the broader point here is really not to focus on one element such as offsets,

but to recognize that what MITI is doing and what Europe is doing in the Fifth Framework program are positive steps to sustain and encourage. Why should we condemn their high-technology industries?

And what the Boeing Company and I think the union would welcome, again, if I may -- if you note on the number of points raised by our colleagues -- is the enforcement of the trading agreements that we already have. We simply don't enforce them. At the last count there were perhaps four people in USTR enforcing the 200 agreements that this Administration has reached. I mean, forgive me, but that seems inadequate.

COMMISSIONER LEWIS: You say there are four people enforcing the 200 agreements?

MR. WESSNER: Right. It may have been increased by 50 percent, sir. Yes. I think it becomes laughable. What can we do that in no way is confrontational in the trading regime? We can increase our R&D budgets. We have decreased dramatically the amount of funding that we're putting in R&D. We cannot continue to do that, and I would hope that your Commission would recognize that and encourage increasing R&D funding. I'd be glad to address it. We need to use the existing mechanisms we have. Anti dumping is absolutely crucial. The semiconductor industry employs something like 260,000 people now. It

nearly was driven -- substantially driven -- from the market in the '80s. Fortunately, we developed a marketing opening mechanism, and the Reagan Administration, to its great credit, enforced the agreement. The Reagan Administration did a textile agreement, did a machine pulls agreement, did an automotive agreement, did the semiconductor agreement and established Sematech to keep from being overwhelmed by unfair trading practices and to fix what was wrong with our semiconductor industry. The fact that it was done under that Administration shows the pragmatism which, at times, I think, succeeding Administrations have lacked.

COMMISSIONER LEWIS: Thank you very much.
Yes, Mr. Waldmann.

MR. WALDMANN: Mr. Wessner, just two points. I think you're right. I think that the MITI vision statements up until 1985 stressed the need for an independent aircraft production industry in Japan. But there was a shift in Japan in '85, which basically said Japan needs an aircraft production industry that is in partnership with foreign entities. And we took that as an indication that what we were doing with the Japanese, first on the 747, then on the 767, where they had a major role as a risk-sharing partner, was the right direction for us to go in with the Japanese

industry, and therefore, we extended that role in the 777 program 10 years ago.

Now, I don't know if MITI is happy or if the Japanese industry is happy, but we have a very close working relationship with the Japanese industry. And I think MITI and the Japanese government have recognized the value of that to Japan.

On the other question that Mr. Wessner has been talking about, we're not asking countries to change their policies unless they have agreed in a GATT or a WTO agreement to the contrary. And what we're saying when we look at the subsidies that are being provided to Airbus is that they are violating a GATT agreement, a WTO agreement, a GATT subsidies code, a WTO subsidies code agreement. Now, if they didn't intend to adhere to those agreements, they shouldn't have signed them.

COMMISSIONER LEWIS: Thank you very much.
Mr. Weidenbaum.

CHAIRMAN WEIDENBAUM: Mr. Herrnsstadt, in your oral testimony you linked losing several hundred thousand aerospace jobs with offsets. You then talked about losing a million or more aerospace jobs. I'll tell you, as an alumnus of the aerospace industry, I take that very seriously. But as someone who continues to study this important industry, I find something

missing in the discussion. According to my calculations, military procurement dollars are down by half or more from their peak in the mid 1980s. That's not -- that's not an offset question. That's the essential completion of the Reagan military build up, and something that we need to acknowledge, thankfully, the end of the Cold War. And to convert this conversion experience, as difficult and painful as it may be, to a discussion of offsets, I think is a bit confusing, let me say. I should also note that this very substantial conversion from Defense employment to civilian employment, looking at the United States as a whole, has been far more successful than most people anticipated. For example, we have the lowest unemployment rate in a quarter of a century, at the same time we have a low inflation rate and the longest expansion in our economic records in the United States. We've adjusted to the end of the Cold War, to the end of the Reagan military build-up, and the adjustment sounds rather successful. Am I missing something?

MR. HERRNSTADT: Mr. Chairman, if I could direct you to my written testimony. I do apologize if my oral communication was somewhat confusing. I think I made it fairly clear in the written testimony that the numbers of the losses of jobs that I have reported obviously come from economists and from the industry. I

in no way meant to convey that they were all due to offsets. The issue that is pointed out is that a significant number of them are due to offsets. What is a significant number? To my members one job is a significant number. If someone has worked in a position for 16 or 20 years and they're losing their job because of an offset, that's a serious issue. As I noted, by the year 2013 economists predicted that 45,000 of the several hundred thousands of jobs that will be lost in aerospace will be related to offsets. Remember, this is such an important industry. We all agree on that. Anything that affects aerospace workers, anything that affects the health of aerospace workers, the job security of aerospace workers, has to be looked seriously at, and offsets are one of those items. I agree 100 percent with Dr. Wessner, and when I talked to you about looking at this as an overall approach, I meant it. You have to look at offsets in the broadest possible terms.

CHAIRMAN WEIDENBAUM: I'd appreciate your sticking to my question in your response.

MR. HERRNSTADT: Okay. Well, I believe I have. Now, also, Mr. Waldmann talked about the numbers ending in 1994. My submission actually goes through 1998 using industry numbers. There were several hundred thousand jobs that were lost. There was a

slight increase, but nowhere reaching the levels that they were in 1989. Thank you.

COMMISSIONER LEWIS: Thank you very much.
George.

COMMISSIONER BECKER: Thank you, Mr. Chairman. I'm as troubled by this whole offset problem as anybody else here. If I had to come up with a word to describe this, I would probably chose extortion. Isn't this really what it amounts to? They're extorting from us aircraft production and technology. Incidentally, I was not that familiar with offsets before I walked into this room this morning. I don't think it's unique to the aircraft industry, but it seems to be predominantly in that.

I think I first read about this when one of the companies that I think is now maybe part of Boeing transferred some highly questionable technology to China in the anticipation of getting aircraft work. I don't think it turned out very well. I don't want to mention the company because I might be wrong on this particular one. And there was great fear that this technology that was being extorted by China in order to get this business, would wind up in the hands of military for military usage. Whether it be satellite technology or whatever they extort from us in this quest for jobs, we're very concerned.

Should this not be illegal under our existing trade laws, and should it not really be a violation of the WTO, as presently constituted? Should this not be a violation of fair trade?

COMMISSIONER LEWIS: This is directed to whom? To Mr. Waldmann?

COMMISSIONER BECKER: All three of them. Any of them who want to comment on it.

MR. WALDMANN: I'll start off and then I'm sure the others will chime in.

It is not currently a violation of any WTO agreement, except --

COMMISSIONER BECKER: To ask for offsets?

MR. WALDMANN: To ask or to give. Either to ask or demand, or to provide, except in the commercial arena where we're talking about aircraft over 100 seats in size, 100 seats or larger. And for those 24 countries that have signed the GATT civil aircraft code, it is a violation to demand offsets. But in the military arena --

COMMISSIONER BECKER: In that in one case of planes over 100 seats?

MR. WALDMANN: Yes. Planes over 100 seats. In the military arena it is not outlawed by anything in the WTO or the GATT. Now, we might like it to be, and I would suggest that if we were going to attack

this problem, we ought to do it multilaterally because
--

COMMISSIONER BECKER: You would recommend
that we do this then?

MR. WALDMANN: I would not recommend that
we do it unless we can do it multilaterally and have it
successfully monitored and enforced.

COMMISSIONER BECKER: Let me put a question
to you, then. If this is such a good trading technique
by these other countries, why don't we do that?
Airbus, for example, got a big order here recently in
the United States. If this is such a good business
practice, shouldn't our government require offsets?

MR. WALDMANN: I'm going to have to defer
to the IAM.

COMMISSIONER BECKER: I'd like our
machinist friend to answer that.

MR. WALDMANN: But -- but I do think that
we do, in fact, require U.S. content on certain DOD and
other U.S. government purchases.

COMMISSIONER BECKER: As presently
constituted, we could require on commercial aircraft
certain components to be built in the United States?
Wing sections. Tail sections.

COMMISSIONER LEWIS: If less than 100
seats.

MR. WALDMANN: We could and still be legal under the GATT. That's correct.

COMMISSIONER LEWIS: Under 100 seats.

MR. WALDMANN: If it were a commercial aircraft deal. Yes. And if it's a Defense deal there's no restriction whatsoever.

COMMISSIONER LEWIS: Right. Thank you.

MR. HERRNSTADT: Yes. Let me respond in three brief ways. First of all, I think it's important to note the offset issue is not just an issue that affects aerospace and related industries. Let me cite for you, shipbuilding, ship repair, machine tool industries, both great successful industries in this country, both significantly affected by offsets, as well as the trade deficit, involving those specific industries. And the question that this Commission and this hearing needs to ask is do we want the aerospace and related industries to follow suit of these two industries that have been so decimated, number one.

Number two, I'm glad to hear Mr. Waldmann talk about a multilateral negotiating approach involving effective monitoring and enforcement regarding the offset issue because that obviously is one of the ways that we are urging our government to attack this issue. The WTO is obviously a very fitting place to do so. Modest rules that are not enforced and

that have huge loopholes you could fly a 747 through are not going to get the job done. So, that is a very good and noteworthy focus.

The third question, Commissioner, that you asked concerns a unilateral approach on offsets. I think we need to study the issue. We need to know exactly what it is, where we are going with it and what it is we are doing about it. The issue that you have suggested is an intriguing one. Obviously, one has to be careful we don't lose more sales by operating in that fashion, which is why when we talk about it we talk about an overall approach. We talk about an approach in terms of getting as much information as possible regarding offsets. We don't know all the offsets that are out there. So, let me stop there.

COMMISSIONER LEWIS: Thank you. Mr. Wessner.

MR. WESSNER: Well, the key thing -- to answer your specific question -- is that if you were going to have an agreement on this, you need to make it multilateral, and you need to enforce it. And I think the prospects for an enforceable multilateral agreement are dim. Multilateral negotiations on these issues are intractable and worse, our record of enforcing them is not good. I think this is one of the things for your Commission to give a higher priority in trade policy in

general. I don't know why the Government was still able to adapt when I was growing up. New departments were organized. Existing Departments were reorganized.

The Nixon Administration was able to do that. Now we seem to think that Thomas Jefferson set up USTR and anyone who suggests it could be moved anywhere else in the government is in violation of the Constitution. I mean this in all sincerity. Our trade policy-making apparatus is understaffed. I don't read with pleasure that the negotiators are working around the clock all the time. Is something wrong with that picture?

Commissioner Rumsfeld, would you want key staff working around the clock all the time? I think that's a bit --

COMMISSIONER RUMSFELD: Only if you want them to make mistakes.

MR. WESSNER: Yes. Exactly. You also touched on an important point here which is mandatory technology transfer, Commissioner Becker. Mandatory technology transfer is something that in principle is not allowed but which in practice occurs. And again, I think our government needs to help defend our companies from these types of pressures. What's a company to do when they want to go into a large market and they're told these are the four things that you have to do. And that is not just in China. That could also include continental European markets.

It's important to understand that we are also not a white menace, particularly on the defense side. If you want to sell a product to our defense industry, you generally have to bring it to this country. But on the commercial side we are much less encouraging.

And there is another point. While we don't want to pass a law requiring production be brought to this country, it is possible to give our negotiators the latitude to encourage it. Honda is producing cars in this country because at the end of the '70s and in the early '80s, U.S. trade policy was to encourage investment in the U.S. Now, some have debated the wisdom of that policy, but the point is you can affect those decisions once they are understood.

COMMISSIONER BECKER: I have another question.

COMMISSIONER LEWIS: Go ahead, George.

COMMISSIONER BECKER: I have just a closing comment on that. The pressure in closing a deal is tremendous within a company. And I can understand going around the clock to close a deal. Once the deal is closed, then they're committed to getting the technology over there, and time and time again we transfer technology to these other countries, against the best advice of the State Department and those who

oversee from a security standpoint, and yet somehow or another this technology seems to drift through. We need to have a cohesive plan. But certainly, I look at this offset, in my opinion, as a form of extortion, and something that this nation should be dealing with in a real true sense.

I have a question concerning Boeing. We've heard from this Administration and others who support globalization and particularly normalization of relations with China and bringing them into the WTO, all of which everybody now is very concerned because the deal has been cut. But the Administration has said very clearly that the best way to bring the Chinese into our system, so to speak, is through engagement. And by engagement, they're talking about having U.S. companies involved in trade deals in China and other places. So, it looks like this is becoming more and more a reality.

I would like to ask you, from a corporation standpoint, what do you consider your company's responsibility in having business relations in China as advancing human rights, labor rights and environmental accords, things that have held back China's accession into the WTO, like child labor and imprisonment of dissidents. What do you feel, as a corporation in

these countries, is your degree of responsibility of advancing the social programs of America?

MR. WALDMANN: Oh, Mr. Becker, I think it's a very heartening development that these issues can now be discussed with China, not only in the WTO but in any other international fora, such as the United Nations, the International Labor Organization, or the UN environmental program. Anything that we do to bring that nation, that extremely important nation, into the international system, cannot help but improve the conditions of the people working in that country, the people who are traveling to that country, and those of us who are doing business with Chinese enterprises. We do not want to deal with countries or with companies in countries that have the sorts of problems that you've mentioned. And we will not.

COMMISSIONER BECKER: Boeing, as a company in a nation like that, what do you do, what does Boeing do?

MR. WALDMANN: Well, first of all, we have no factories in China. It's important to understand this. We are not producing in any factories that Boeing owns in China. In fact, we only have facilities outside the United States in Canada and Australia. Everything else we do is through suppliers who are suppliers to The Boeing Company. So, our possibility

of changing the conditions within any different country or within any particular enterprise is relatively limited.

COMMISSIONER BECKER: You may not own the companies, but they make component parts over there, don't they? Sections?

MR. WALDMANN: That's true.

COMMISSIONER BECKER: And you have people on hand and they're overseeing that, do you not?

MR. WALDMANN: We do.

COMMISSIONER BECKER: So, you have engagement there. How does Boeing tell its people to engage in these processes? Do you have an influence or do you even take part?

MR. WALDMANN: Well, I think we do have an influence. It would be, you know, it would be wrong for us to deny that we don't have influence. On the other hand, I don't think we see, in any of the factories that we are engaged in, any of the conditions that you're talking about.

COMMISSIONER LEWIS: We have another round of questions, but I want to ask you one question, Mr. Waldmann.

Let's assume that Boeing was trying to sell airplanes to country X and you saw that there was a sufficient supply of labor in country X that they could

do a lot of your production, and you could produce there less expensively than you could produce here, what decision -- what factors would go into the decision as to whether or not to start producing there versus here?

MR. WALDMANN: Well, a lot of things would go into that decision. The bottom line, of course, is that we have faced a lot of country X's in doing business around the world for the last 50 to 60 years. And the bottom line is today we have 84 to 86 percent U.S. content.

COMMISSIONER LEWIS: I heard that and I think that's wonderful.

MR. WALDMANN: That means that we have faced that decision in many situations and we have decided that it was not worth the kinds of effort that would be required to set up shop in a foreign country. We just don't do that.

COMMISSIONER LEWIS: This is obviously a significant issue for our country, as well as for one of the great companies of the world and a significant exporter from the United States. Let's assume that there's another company, not Boeing, that does what you do, and the management decided we want to start producing overseas, should that be strictly a business decision made by that management to that company?

MR. WALDMANN: We have a series of laws and regulations which affect that decision; perhaps one of the most important is the export control system that we have in this country which restricts not only the final products to buyers overseas, but also the export of production equipment overseas.

COMMISSIONER LEWIS: I see. There's limitation on the freedom of action?

MR. WALDMANN: There are limitations. Exactly.

COMMISSIONER LEWIS: Good.

MR. WALDMANN: And furthermore, there are lots of countries where we have unilateral sanctions of one kind or another. And in my testimony I think I mentioned 70 countries that have, at this moment, some kind of sanction imposed on them by the United States which further limits our freedom of action in certain countries.

COMMISSIONER LEWIS: Mr. Waldmann. Thank you. Thank you very much. We're going to have another round and we have about 15 more minutes for this panel, so I'd like to ask each person to limit their questions, and ask the panelists to limit your responses. Did you want to say something, Mr. Wessner?

MR. WESSNER: I did, sir, in response to your question, which is, I think, an important

question. Leaving aside issues of export control, I think it's very important that the decision be left in the hands of management to decide where they need to locate their production facilities. I think it would be a grave error to put constraints on them. On the other hand, I think we do not pay sufficient attention to the type of environment we offer. We need to have a supportive policy environment that encourages location here, as many state governments do. For example, in the semiconductor industry, which is not, I would remind you, going to grow any smaller, we have very unfavorable depreciation allowances, and when you're investing in a billion dollar fabrication facility, those allowances become very important. Our accounting system is simply out of touch with the rapid rate of evolution and equipment usage in that industry.

And I'd very much like to address the point on sanctions. We have an important leadership role in the world, but I would like to have a President who, when something bad happens around the world that we really can't effect, doesn't stop our companies from trading simply to show that we're deeply concerned or to satisfy a domestic political constituency. We have enormous overkill on sanctions. Worse, there is very little data to suggest that sanctions are effective.

COMMISSIONER LEWIS: Thank you. Thank you.

We're going to get Dick, Don, Michael and then Murray again. I'd like to limit each of you to two or three minutes for your question in response. Go ahead, Dick.

COMMISSIONER D'AMATO: I'd like to ask the mega question. Mega question on leadership. Now, I know, Mr. Waldmann, that you know, Boeing Company is not in the position of political leadership, but your influence is so large that these questions really can't be avoided. You talk in your statement about our need for being leaders in opening markets, being leaders in implementing and enforcing a rules-based system.

Certainly I agree with that. We've had some problems with the Chinese in terms of rules-based systems in agreements in the past. I add to that that we need to be a leader in a rights-based system. In other words, the implementation and observance of not just human rights but the rights of assembly, rights of freedom of religion. We implemented that type of agreement for many years, that type of positive leadership with the Russians, as you recall, in the '70s. I can remember greeting Alexander Ginsberg at the airport in Washington. That man wouldn't have been alive. He had been in prison -- in and out of prison about 40 times. He would have perished had this government, our government, not been consistently tough

with the Russians on trade policy, linked to their treatment of these dissidents. And we were certainly only partially successful. We wouldn't have been successful at all without that kind of leverage. I don't see that kind of leverage being exercised here today. And --

COMMISSIONER LEWIS: What's your question?

COMMISSIONER D'AMATO: My question is this.

In the context of I think a poor track record we see with the Soviet -- with the Chinese -- on religious freedom, the poor track record we see on a rules based implementation of agreements, why is it that people think, you think, as a company, that we would be more successful inside a multilateral organization where our leverage will be, by nature, reduced, than it has been in the past? What is it that gives us confidence that we will be able to bring any kind of pressure to bear to bring the Chinese around on both rules based and rights based behavior?

MR. WALDMANN: Well, I think the answer is in your question. I think it's not just the United States now. It is going to be the 134 members of the WTO. They are all going to have a stake in seeing that China adheres to the rules, whatever those rules are. And clearly we have been in a minority among countries in the last decade or so in trying to enforce certain

agreements. Other countries have taken a free ride, if you will, on the back of the United States. I think that will change.

COMMISSIONER LEWIS: Thank you. Don.

MR. HERRNSTADT: If I could just respond very briefly. There was an op-ed piece in the New York Times yesterday that addressed your point. I wrote down a quick quote. And the point was that Chinese adherence to the UN's International Covenant on Civil and Political Rights that was signed last year -- obviously there are a lot of questions about whether or not it's actually been honored. And the quote was that Chinese citizens have human rights, but only as their government defines them. You can see how it's worked there. You can see how it's worked with other memorandums of understandings. I think your question about effective enforcement is a very real one. Thank you.

COMMISSIONER LEWIS: Thank you. Don.

COMMISSIONER RUMSFELD: I'll pass.

COMMISSIONER WESSEL: I'll make a request that our panelists can respond to -- in writing or otherwise at some point. Each of the panelists has raised a question of enforcement. And Dr. Wessner, you've raised the question of the inadequacy of resources. In I believe a week or two, the panel of

the Commissioners are going to hear from Patrick Malloy, who is one of the people charged in the Administration with the enforcement agenda, and I agree that it is woefully inadequate in terms of resources and I would appreciate any comments as to how we might do a more effective job. What resources are necessary?

What infrastructure might be appropriate for us to enforce what are now the 264, I believe, trade agreements that have been reached? It is somewhat ironic that these agreements have been reached in the last seven or eight years, yet the trade deficit has skyrocketed. So, we're somewhat interested, in fact, in what the track record has been from each of these trade agreements.

MR. WESSNER: If I may, just very quickly. Those are important points. In the volume on conflict and cooperation there were some specific situations in the text on the NRC part. I would recommend that you consult Ambassador Alan William Wolfe at Dewey Ballantine, who has put together a really very interesting volume on this question. Paula Stern has also written on the need to reorganize. Both of them are active trade policy practitioners who have an understanding of the inadequacies of the current structure. But I think the --

COMMISSIONER LEWIS: Is Paula Stern also with Dewey Ballantine?

MR. WESSNER: No. Not at all.

COMMISSIONER WESSEL: Dr. Stern will be testifying, I believe, at that same hearing. And perhaps we'd like to have Alan Wolfe as well.

MR. WESSNER: And one of Al Wolfe's central points -- which I hope is a point that I share and will be able to convey to you -- is that other countries attach more importance to the linkage between their industrial policies and their trade policies. And they have an organizational structure that reflects it. I couldn't imagine that we would have an understaffed dispersed Department of Defense. I mean, that would be inconceivable and yet many of these issues, many of the actions taken in this arena, can directly affect the capacity of the nation to defend itself over the long term. When you lose an industry, it effects what they call the technology trajectory of the economy. You lose the jobs today. You lose the jobs in the future.

When I was at the Treasury, they told me that the U.S. had to evolve out of black and white TVs.

We were actually dumped out of black and white TVs, and our system proved that the dumping had occurred. Unfortunately, all of the companies were bankrupt when

the decision was made. We were then supposed to move to color TV but then we got dumped out of color. And anyhow, we didn't need the TV industry until we discovered, actually, that computer monitors might have a role in the computer industry. The Europeans, by the way, make TVs and many TVs are made in East Asia. The point is that it's an industry, it's a viable industry, and we lost it through inadequate application of existing trade policy. An effective anti-dumping policy is particularly important in the high technology arena.

COMMISSIONER LEWIS: Thank you. Thank you very much.

COMMISSIONER WESSEL: I have a very quick comment. I would also love your comments on a proposal which I believe Senator Baucus has now put forward to create a Congressional Trade Office, almost as an analog to the Congressional Budget Office. As this Commission is a Congressional -- a creature of Congress, there is a view by many that Congress needs to enhance its role by having the infrastructure and the historical memory about trade agreements to try to work with the Administration in the future.

MR. WESSNER: Just very briefly. That is an excellent idea, and it would help get the balance of a benefits study. There are benefits from trade. But

there's no reason to overstate it as wildly as we do in these discussions. There are also costs to these agreements, and they need to be squarely faced. And we need to have a worker adjustment program that is adequate to the task.

COMMISSIONER LEWIS: Mr. Waldmann, do you want to make a response?

MR. WALDMANN: I just want to comment, Mr. Wessel. I'm not aware of any cases which have been turned away either by the USTR or by the Commerce Department under our dumping and countervailing duty policy, as a result of inadequate staff. Perhaps there have been some, but in my experience, those departments are, in fact, very responsive when they have a case brought to them.

COMMISSIONER LEWIS: Mike. Mike. We have to stop. I'm sorry. Mr. Weidenbaum.

CHAIRMAN WEIDENBAUM: A question for Ray Waldmann. When I listened to the earlier discussions of offset and other discussions of off-sourcing, there seemed to be an unstated assumption that there was a golden age during which the aircraft company made the whole bird. Well, in olden times, during my day, the average was about 50 percent outsourcing. Now, that wasn't a standard rate. It was an average. Sometimes more, sometimes less, depending on the alternatives and

the economics and the technology, et cetera. Are we dealing with phenomenon that's a standard phenomenon in a systems oriented industry such as aerospace, which couldn't possibly have the capability of doing all of the work required to design and build a modern, high tech product?

MR. WALDMANN: And I think even in those dark ages, Commissioner, the U.S. content was probably on the order of 80 to 90 percent, and today we are still outsourcing 50 percent of the work. It's just that it's outsourced to U.S. companies as opposed to The Boeing Company.

COMMISSIONER LEWIS: Don, we have a minute. Do you want to ask your question?

COMMISSIONER RUMSFELD: Well, yes. Two quick thoughts. One, military is different than civilian. There are other interests, such as standardization. If you can save an enormous amount of money if you have the same resupply for five countries in terms of your logistics. The advantages that accrue from having common purchasing that, in most cases require offsets, because each country wants to have their own defense base, which is fair enough. As long as you're dealing with countries that you can count on during a crisis, as in NATO.

Second, there are offsets, which we've talked about, in the pharmaceutical business. When you go to a country they have tax laws, they have export-import laws, they have all kinds of approval laws, pricing laws for your products, which determine the extent to which you feel it is or is not in your interest to put a packaging plant there as opposed to a manufacturing facility for the more difficult aspects of pharmaceutical manufacturing, companies put a plant in a country when the advantages exist, for example, in terms of exporting out of that country into neighboring countries.

Third, there are situations where a corporation decides for its own interest to place business. For example, if Gulfstream, Boeing and Challenger and whoever else are competing, one may decide, or they want to purchase some element, for example, the tail, in Germany, so they are better able to compete with Falcon in France. That goes on all the time, those kinds of judgments that business people make.

COMMISSIONER LEWIS: Thank you. We're really out of time except Mr. Papadimitriou has not asked a question, so we're going --

COMMISSIONER PAPADIMITRIOU: Thank you very much, Mr. Chairman. Mr. Waldmann has provided in his

testimony, both orally as well as in his written testimony, some suggestions about dealing with the trade deficit. And since this is the major aspect about this Commission, I wonder whether the other two panelists can share their views with us in terms of what would they recommend we do, or suggest in our report?

COMMISSIONER LEWIS: Would it be okay if they did that in writing rather than giving us a response?

COMMISSIONER PAPADIMITRIOU: Sure.
Recommendations on how to deal with the trade deficit.

COMMISSIONER LEWIS: What he has suggested is that Mr. Waldmann has given us specific suggestions on dealing with the trade deficit. Could you each do the same thing in a couple of pages, I suppose, of how to deal with the deficit?

MR. HERRNSTADT: I would be more than happy to submit that later.

COMMISSIONER LEWIS: This has been an extremely useful, helpful, informative panel. Thank you very much for your participation.

COMMISSIONER BECKER: Can I squeeze one little question in because the last one was almost a little editorial. The difference I see in my understanding of the offset is if a company decides

that they want to outsource into a nation for whatever reason, they do this all over. Some companies make their products in a half dozen countries. I separate that out from what you are describing as being required as a condition of getting an order, of being told, "If you don't do this, we don't do business with your firm." And I liken that more towards what I said was extortion or bribery or the other kind of forced business action which is offensive to everybody in this room. Thank you.

MR. LEWIS: George, thank you very much. We'll take about a minute break. And Mr. Cutler, you'll go first because I know you have a plane to catch.

MR. CUTLER: Okay. Good morning Mr. Chairman, and members of the Commission. I'm --

COMMISSIONER LEWIS: I'm sorry. Excuse me. The light will go on. It's green. And it will go on for five minutes. And then when it turns yellow you have two minutes to go. And we hope everybody will limit themselves to seven minutes for the direct presentation. Thank you.

MR. CUTLER: Well, good morning again, Mr. Chairman and members of the Commission. My name is Ron Cutler and I am the current chairman of the U.S. Auto Parts Advisory Committee, and Vice President of Marketing of TRW. I'm extremely pleased to be here today to establish a dialogue between our two committees. APEC is a national advisory committee comprised of private sector companies, trade associations and union representatives that was created by Congress in 1988 and then again reauthorized in '94 for the mandate to advise the Secretary of Commerce on auto parts and trade in Japanese markets. Congress then again in '98 reauthorized our group for a third five year term and extended our scope to advise the Commerce Department on barriers in other Asian markets as well as Japan.

We strongly support open markets for motor vehicles and auto parts, and what success is achievable

through fair and open competition among manufacturers.

The world-class U.S. auto parts industry can successfully compete in every automotive market in the world if competition is not restricted by non-market barriers or other practices either imposed or tolerated by national governments. In short, we are seeking and have ever sought is a level playing field.

The impact of the Asian economic collapse on the U.S. auto parts industry and the U.S. economy generally is worse than it would have otherwise been because of Japan's economy is entangled in a web over web of regulatory controls, non-transparent administrative guidance procedures, bank loan failures, and what we call karetsu relationships and a number --

COMMISSIONER LEWIS: What was that word?

I'm sorry.

MR. CUTLER: Karetsu. Karetsu relationships and other market access barriers. In particular, these practices of Japanese karetsu groups linking vehicle manufacturers and vehicle parts people in Japan and the U.S. continue to tilt the field and make it very difficult for U.S. suppliers to expand business with Japanese and Japanese automakers in all major world markets, despite U.S. industries competitiveness and a continued leadership in the newest high technology areas. The chronic U.S. auto

parts trade imbalance with Japan, \$9.7 billion in '98, is much larger than with any other countries, and is growing this year at a 10 percent rate over the '98 figures.

Save for the parts trade deficit with Japan, the U.S. would have enjoyed a global parts trade surplus in '98, and the same may be said of every year, beginning with '82. Since 1980 when the Carter Administration negotiated the first Japan auto parts market opening agreement, America's cumulated parts trade deficit with Japan has grown from \$1 billion in 1980 to \$140 billion in '98. APEC decade long commitment to the increased private sector in government effort to accelerate the pace of progress in opening Japanese markets has been demonstrated. One, that some formal bilateral part trade agreement is needed for Japan to undertake any market opening measures and, two, that Japan will adhere to the letter, if not necessarily the spirit of market access agreements.

For example, in 1995, auto parts framework agreement Japan complied with the letter by immediately removing shock absorbers and struts from its crucial parts list. Since only certified garages, generally those tied to automakers in Japan again, may repair crucial parts, the change meant that independent

sellers would not be able to participate in this area.

This opened a new channel for foreign producers to compete in Japan finally. But as for the spirit, Japan promised reviews of the critical part list for purposes of removing additional items, produced nothing, nothing, nothing of note. This despite a compelling U.S. industry petition for brake parts via regulations that was backed the secretary Daley and the U.S. Trade Representative, Barshefsky. Measurements of results is critical to implementing any type of agreement, yet currently available data does not indicate whether U.S. parts purchases by Japanese automakers reflects sales progress of non-Japanese owned or controlled U.S. suppliers, or merely the sales of Japanese affiliated transplant suppliers.

To help solve this problem, APEC long has supported the full implementation of the Foreign Direct Investment and International Financial Data Improvement Act of 1990, including the mandatory priority Congress set for reports on the aggressive auto parts shipment of Japanese affiliated suppliers in the U.S.

COMMISSIONER LEWIS: Two minutes.

MR. CUTLER: In '98 the government of Japan began implementing a \$500 million bail out package for Japanese banks, some of the largest which are at the center of the so-called Japanese karetsu system. It is

vital to U.S. economic and trade interest that the Japanese government and its karetsu group do not use the proceeds to provide subsidiaries to Japanese industrial companies.

American companies and American economy would suffer a double blow to the Japanese government take such type of actions. Our markets would be open to Japanese exports and investments while Japan maintains its import barriers, adds new subsidiaries for exports in financially ailing karetsu type companies.

The financial ailment of karetsu suppliers is profoundly affecting other Asian markets where the karetsu system dominates. Japanese auto companies control 90 percent of the local production of a number of Asian countries.

Let me close with our key policy recommendations. The International Monetary Fund has negotiated assistance packages for Taiwan, Indonesia and Korea that have helped against longstanding U.S. trade objectives. By including commitments to open their automotive markets in the case of Indonesia to abolish its national car program, APEC recommends that whenever the IMF pledges financial assistance to a country, or a country requests additional funds, or the

time to repay loans, the IMF should assist on market openings.

APEC welcomes the creation of the U.S. Trade Deficit Review Commission. We urged three major objectives for you to work. One, identification of country-by-country priorities. Two, establishment in monitoring the progress towards specific defect reduction goals. Thank you very much.

COMMISSIONER LEWIS: Thank you very much. The second person who will make a presentation is Mr. Alfred Eckes.

Thank you very much.